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File No. 725/36 II

A CLASS PWD **DEPARTMENT** El **BRANCH**

Subject:— Electricity Duty Regarding Reduction in the vis-a-vis Grid System of Electricity.

A [K] 1945

File No. 725-/36 PWR Bi

Gen. Secty. Sup. 24-A

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G.R., G.D., No. 2408, dated 22-6-22.]

Correspondence

DOCKET SHEET

Subject :—

File No. _____

_____ **DEPT.**

_____ **BRANCH.**

References :—

Date	To whom sent.	Notes and instructions.

The Bombay Electricity (Supply) Bill, 1944, provides for the creation of the Bombay Electricity Board which will be the sole purveyor of electricity in bulk. The Board will have the power to declare efficient generating stations as "selected stations" and where necessary direct them to carry out extensions and to take over their entire output of electrical energy. It ~~max~~ will establish, in addition, its own thermal and hydro stations. It will have the power to direct that small inefficient stations be shut down.

The various existing "selected stations" and the new stations of the Board will be interconnected by means of a Grid. The Board will supply energy (a) in bulk to the owners of the "selected stations" as well as those whose stations have been shut down, for retail distribution in their own areas and (b) direct to consumers in other areas.

2. In all important respects our draft Bill follows closely the British Electricity (Supply) Act, 1926. It does this specially in the matter of principles under which the commercial transactions of the Board are to be carried out except in one important respect. The British Act provides that the owners of the "selected stations" shall be supplied electricity in bulk by the Board at a price worked out under the principles mentioned above but not exceeding that, ~~more accurately could have generated but for existence of the Grid~~ at which they could generate their own requirements. Our Bill while laying down the British principles for calculating the purchase and sale price of electricity from and to the "selected Stations" does not make the sale price subject to the above mentioned limiting proviso. A reference is invited to Enclosure I hereto, giving section 13 of the British Act. Our recent negotiations with Messrs. Killick Nixon have shown that they and others, engaged in the electric

More accurately could have generated but for existence of the Grid.

supply industry, will, when we hold a conference with them, demand our following the British practice. It will be difficult to resist this demand.

3. There are in this Province two large Concerns, viz., (1) the Tatas (Tata Hydro, Tata Power and Andhra Valley) and (2) Killick Nixons (Ahmedabad and Surat Electric Supply Companies). There are three others important licensees, viz., the Bombay Electric Supply and Tramways Company ~~(Managing Agents~~ the Bombay Suburban Electric Supply Company (Managing Agents Killick Nixons and Co.), and the Poona Electric Supply Compay; these, however, do not generate their own energy and hence need not be considered for the present purpose. The remaining licensees about 54 are small concerns.

From April 1943 to March 1944, the total energy generated by the various licensees was as under :-

Name of the licensee.	Total energy generated in units.
(1) Tatas (three Hydro stations) ..	1,116,568,018
(2) (a) Ahmedabad (thermal) ..	107,144,640
(b) Surat (thermal) ..	9,319,260
(3) All the rest (put together) ..	16,746,963

The stations at (1) and (2) will be the "selected stations" of the Board. The stations at (2) are of thermal type and both of them are being extended, beyond their own immediate requirements. The capacity of the Ahmedabad Station is being doubled. Because of the ~~expost~~ export of power from these stations by the Grid Board, the overall cost of generation at Ahmedabad and Surat is expected to be reduced. In view of this, the condition mentioned in para.2, viz., that the Board shall resell electrical energy to them at a price not exceeding that at which they could generate their own

requirements, can be fulfilled, so far as these licensees are concerned. At the same time, the Grid Board may be expected to be able to meet from the transaction its own expenditure in a reasonable period of time on the section of the Grid served by these two stations.

As regards the stations at (1), i.e., the Hydro stations of Tatas, their linking up with our Grid is not likely to bring about immediately any sizable reduction in their cost of generation. In the second and third stages of the development of our Grid, when the Kalinadi, Koyna and possibly one or more big thermal stations are developed and linked to our Grid, the case will be different. The linking of the Hydro stations of Tatas to our Grid from the very commencement is essential for the economic development of our irrigation-cum-Hydro electric resources. Later on in the second and subsequent stages of development of the Grid, it will be even more so; for otherwise, it will be impossible to develop fully and efficiently the Grid System of electric supply in the Province.

4. Our Draft Bill (section 29) and its schedules (2nd, 3rd and 4th) lay down the principles under which the Grid Board will take over the entire output of the 'selected stations' and resell to them the quantity required by them for retail distribution. Under these principles, unless we decide to follow the British practice indicated in para.2 above, the Board can call upon Tatas to buy back electrical energy from it at a price higher than what it would have cost them, had the Grid not come into existence. If it were decided that the Board should meet item deficit in the first few years of its existence from the receipts of what would

amount....

amount to a fresh tax on electricity, the policy could be carried out under the above mentioned section and schedules of our Bill. In such a case, Tatas (who generated in 1943-44 about 1,116 units out of a total of some 1,250 units) and their consumers, if Tatas can pass on the tax to them, would pay by far the biggest part of the cost of development of electric supply in the Province. It would be anomalous to initiate a scheme intended to reduce the cost of electrical energy by an additional tax on it. Such a procedure will give rise to discountent on the part of consumers and ill-feeling on the part of Tatas. It will, in my opinion, be both impolitic and inopportune to set the Grid Board on its career in such an atmosphere. I would accordingly suggest that we should follow the British practice in the matter of resale price of energy to the owners of the "selected stations".

5. In view of what has been stated above, some other source of revenue for meeting the deficit in the working of the Grid Board in the first few years of its existence must be utilised. In my note No.3 on the Bombay Electric Grid, entitled " Tax on the Consumption of electrical energy" I had pointed out (para.4) that the yield from the existing electricity tax in the year 1942-43 was a little over Rs.31 ~~xxx~~ ~~in the~~ lakhs. In paras.7 and 8, I recommended that Government should be prepared to forego the entire receipts from this tax. It should give the tax receipts to the Board as a ~~subsidy~~ subsidy to meet the deficit in its working. The tax should be reduced year by year to the extent of the decrease in the Board's deficit. It should be abolished completely when the Board becomes self-supporting.

6. I believe that my note No.3 has so far not been considered by Government. I request that it be considered and a decision arrived at, before the Draft Grid Bill is finalised and discussed by Adviser (R.& P.W.D.) in conference with the electric supply interests.

7. For facility of reference, I place below a copy of my note No.3 and the Draft Bill with my proposed amendments (upto 24th October 1944). If my recommendation in para. 5 above is accepted, the Bill will be further suitably amended on the lines of the British Act as mentioned above.

Id/-
1-11-44

G.F.S. Collins, Esquire,

CSI., CIE., ICS.,

Adviser (R & P.W.D.),
Civil Secretariat - B'Bay
U. O. r. No. Elg. 3/327

Bombay, 1st November, 1944.

DDA.1.11.

Enclosure I

Section 13 of the Electricity (Supply) Act, 1926.

.....

Limitation on price to be charged to owners of selected stations.

13. Where any authorised undertakers, being owners of an existing generating station which by virtue of this Act becomes a selected station, who take a s supply of electricity from the Board prove to the satisfaction of the Electricity Commissioners that the cost of taking that supply from the Board on the terms provided by this Act in any year exceeds the cost which they would have incurred had this Act not been passed in themselves generating the like quantity of electricity then the charges by the Board to those undertakers for the supplies of electricity furnished to them shall be so adjusted that the amount charged in that year does not exceed the cost which, in the opinion of the Electricity Commissioners, the undertakers would have incurred in themselves generating the electricity.

DDA.30.10:

A NOTE ON THE BOMBAY ELECTRIC GIRD - NO. 3.

Tax on the consumption of electrical energy.

The position in Bombay Province

This question was first considered in 1921 under the instructions of Sir Henry Lawrence, the then Finance Secretary. He was of the opinion that as electric light and power were luxuries not within the reach of the general public, users of electricity should contribute something to the general revenues over and above the cost of the Electrical Department. The then Electrical Engineer to Government, Mr.Roose, was opposed to the proposal. He remarked that electricity supply was a public utility like gas and water and he did not see why it should be taxed if the latter two were not taxed. He emphasised that nowhere in the world was electricity taxed. Besides, there was considerable talk of industrial development and for this, cheap power was necessary. He was, therefore, strongly of the opinion that there should be no tax levied on electricity. The proposal was accordingly dropped. But fees were levied for inspection of motors and installations by the Electrical Inspector to Government periodically.

2. In 1931, when questions of retrenchment and fresh sources of revenue were being considered, the then Electrical Engineer to Government suggested that if electricity was taxed at the rate of (1) ½ anna a unit for lights and fans, (2) 2/3 pies for heaters and refrigerators and small electric motors, (3) 1 pie per unit on special power rates of one anna per unit and (4) 1/6th pie per unit supplied to mills and railways, etc., a revenue of some 17 lakhs of rupees could be raised. Consumers who generated their own electricity should also pay. Those who were charged a flat rate per lamp should pay the tax ranging from 2 annas to 6 annas per lamp of 20 to 60 watts per month. The proposal was considered by the Government and the then Secretary, Finance Department addressed...

addressed the Government of India on the proposal of tax on electricity. In his D.O. dated 14th October 1931, the Secretary, Finance Department, Government of India did not like the proposal, they would not object to it. They felt, however, that the tax would discourage the establishment of new electric supply companies and increase the cost of production of some industries. The then Government of Bombay also did not like the proposal in principle. It was considered, however, necessary as an emergency measure: vide the note dated 21st October 1934 of the then Finance Secretary on page 99 of F.D. file No.9277/2. In his opinion the tax was objectionable as it was selective in its incidence. The financial stringency then prevailing however made the Government adopt the proposal temporarily. Bombay Act II of 1932 was accordingly enacted. The schedule provided for the tax at the rate of

(1) 6 pies per unit for lighting and fans,

(2) 2 annas to 6 annas per month per lamp of 30 to 100 watts at flat rate.

The tax was to be gathered by the vendors of electricity and was not applicable to those consumers who used not more than 12 units in any month. Certain premises like Government offices, Local Authorities offices were to be exempted. Street lighting was also exempted.

3. The Finance Act authorising electricity duty has been annually renewed and the revenue up to the time when the proposal for increasing the rates of duty was considered in 1937-38 was as follows :-

Year	Revenue in rupees.
1932-33	6, 79,000
1933-34	8, 52,000
1934-35	8, 73,000
1935-36	9, 69,000
1936-37	10; 00,000

In July 1937, the question of increasing the tax was considered. An alternative method under consideration was that instead of taxing the consumer, Government may levy a tax on supply Companies for all the energy sold by them. The then Finance Minister did not think that there

was sufficient justification for industrial undertakings being exempted. The Legal Remembrancer was of the opinion that this mode of taxation would be considered as an excise duty. He stated in the concluding part of his note No. 104-L dated 2nd July 1937 that the Government of India had agreed that they would recommend to the India Office an amendment of the lists in the Seventh Schedule with a view to make the duty on electricity a provincial tax. He suggested therefore that it would be advisable to await any such amendment before attempting any change in the mode of levy of electricity duty. As a result, the then existing method of taxation was continued, but the rates were increased to those given in enclosure I, which shows the rates in 1938 and in 1939. It may be noted that the tax was made applicable at different rates to all consumers of electricity for lighting and fans as distinct from being applicable as previously only to those consumers who used more than 12 units of energy. Care was taken to ensure that the increase was not passed on to the consumers. This was achieved by negotiations under which the Companies simultaneously reduced their rates of charges, the reduction being equivalent to the increase in the tax.

4. The approximate yield from the tax on electricity in the year 1942-43 was Rs.31.25 lakhs as compared with Rs.6.79 lakhs in the year 1932-33, when the tax was first levied. Enclosure II shows the receipts for the year 1942-43 for the different areas of the Province. It will be noted that the bulk of the tax is paid by householders for lighting and fans in Bombay City, Bombay Suburban area, Poona, Ahmedabad and Surat. Their total comes to Rs.30,28,781. By far the largest single contribution is made by citizens of Bombay City, their contribution being Rs.23,39,993 out of a total for the whole Province of Rs. 31.25 lakhs. As stated previously, however, the increase in the tax introduced in 1939 was not passed on to the consumers.

Position in other Provinces in India.

5. From the information received so far, it seems that no tax is levied in the Provinces of Orissa, Bhiar, United Provinces, Central Provinces, North-Western Frontier Province and the States of Travancore and Mysore. Tax is levied in the Provinces of Madras, Bengal and Sindh on energy consumed for lighting and fans. A reference is invited to enclosure III hereto.

It will be noted that out of the 11 Provinces and States, which have replied to my enquiries so far, in 8, electricity is not taxed. In the 3, where it is taxed, the tax is levied only in respect of energy consumed for light and fans and not for industrial purposes.

My recommendations!

6. Generally speaking, it would be correct to say that the tax on electricity is a tax on progress. In some countries the supply of electricity is actually subsidised, for, it is considered essential to make it available at a low rate so that industries and agriculture may use it in abundance. In this Province, there has been a demand for the abolition of the present tax The Bombay Municipal Corporation passed the following resolution on the 16th of August 1941 :-

> " That His Worship the Mayor be requested to invite the attention of Government to the levy of sur-tax on consumption of electrical energy imposed under the Bombay Finance (Amendment) Act,1939, which was primarily intended to recoup the loss in excise revenue caused by the introduction of Prohibition in Bombay and certain other areas, and he be requested to represent to the Government to completely do away with the same in view of the dramatic change made in the Prohibition policy, as the continuance of the sur-tax under the changed conditions is not justified and imposes an unnecessary burden on

on consumers of electricity"

In reply to this resolution, which was duly communicated to Government, the Municipality was informed that its representation would be considered in connection with the following year's Finance Bill.

Speaking at the first General Meeting of the Association of Electrical Undertakings, Bombay Province, held recently, the Chairman Mr.Neol-Paten criticized the tax as generally unjustifiable and particularly, as a deterrent to the electrical industry in that it retarded the growth of consumption of electricity and discouraged new electricity undertakings. In agreeing with these views in its leader of the 8th of November, 1941, the "Times of India" emphasized that the incidence of this form of taxation in Bombay City rises as high as a 62½% surcharge on the price of each unit.

7. The power Resources Survey Committee appointed by Government in 1938 appreciated that the working of Electricity Board recommended by them in their report result in deficit for some years. It was essential in their opinion that this deficit should not be charged capital account as such a procedure will handicap very considerably the operations of the Board. They had, therefore, suggested that the Board's deficit should be met from the receipts of a small surcharge on the sale of every unit of electricity. The rate suggested by them was one rupee for every 400 units sold by the Supply Companies. It was estimated that in the year 1940 at this rate of sum of about Rs.17/-lakhs would be realized which sum they estimated should be sufficient to meet Board's deficit in the first year of its operation. The cost of materials and equipment has since gone up appreciably, the estimated deficit of the working of the Board in the first few years will, therefore, be higher. The

Five Committee

The Committee suggested that the rate of the tax should be reduced from year to year as the deficit of the Board decreased and until when the Board's operations became self-supporting there should be no tax on electricity.

8. When the power Resources Survey Committee were drafting their report, the rate of duty on electricity was lower than at present. They were also aware that the then Government looked for increased revenues from this source. The Committee had, therefore, no other alternative but to suggest a special cess or tax to make good the deficit in the working of the Board for the first few years. The conditions, however, are different at present. The mode of taxation suggested by the Committee, as has been pointed out by me in the previous paragraph, will probably be considered as an excise duty and cannot be adopted. Besides, electricity, as it is, is already too highly taxed in this Province. Both the Municipality and other interests have stressed the necessity of reducing or abolishing the tax. It will, therefore, be very inopportune to introduce another from of tax on electricity in order to make good the deficit of the Board for the first few years. I am personally of the opinion that not only there should be no new tax put on electricity, but that the continuation of the present tax can only be justified if the receipts are utilised for the development of electric supply in the Province as widely as possible so that electrical energy may be available in the rural areas in addition to urban areas all over the Province. I accordingly recommend that Government should decide to forego the revenues from this source. They should review the rate of the tax and fix it so that receipts from it will be just sufficient to cover the anticipated deficit in the working of the Electricity Board, proposed ~~xxx~~ to be set up for the introduction of the Grid System of electric supply. The rate of the tax should be gradually reduced so that in due course when the Board's activities are self-supporting, the tax should be entirely...

entirely wiped out. The receipts of the tax till then should be handed over as a subsidy to the proposed Electricity Board to enable it to meet the deficit in its working.

Sd/- P.B.Advani

20-6-44.

Encls:I to III.
DDA.27.10:

ENCLOSURE I

17

N O T I F I C A T I O N

FINANCE DEPARTMENT

Bombay Castle, 31st March, 1939.

No.9326-A (2)

Schedule.

The area of supply in which under the terms and conditions of a licence granted under section 3 of the Indian Electricity Act,1910, or any placem in any other area in which under section 27 of the said Act a licencee mentioned is authority to supply energy.	For each unit of energy consumed for the use of a Cinema house or theatre. per unit.	For each unit of energy consumed for any other purpose. Where the total consumption per mensem does not exceed 12 units. per unit.	For each unit of energy consumed for any other purpose. Where the total consumption per mensem of unit exceeds 12 units. per unit.	Remarks In the year 1938 For all energy consumed. per unit
The Bombay City	3/4 anna	1 anna	1 1/4 anna	9 Pies.
(1) The ahmedabad City Municipality and District Local Board Electric Licence.	3/4	1 anna	1¼ anna	-do-
(2) The Surat City Municipality and District Local Bombay Electric Licence.	-do-	-do-	-do-	-do-
(3) The Bombay Suburban Electric Licence.	-do-	3/4 anna	-do-	-do-
(4) The Poona Electric Licence.	-do-	-do-	-do-	-do-
(5) The Thana Electric Licence.	-do-	1 anna	-do-	-do-
(6) The Bhiwandi Electric Licence.	-do-	Nil	3/4 anna	-do-
(7) The Belgaum Electric Licence.	-do-	Nil	-do-	-do-
(8) The Kalyan Electric Licence	-do-	1 anna	¾¼ anna	-do-
(9) The Ahmednagar Electric Licence	½ anna	½ anna	3/4 anna	6 pies
(10) Rander Electric Licence.	-do-	-do-	-do-	-do-
Other areas	-do-	Nil	½ anna	-do-

Enclosure II

Showing receipts for the year 1942-43 from the various Electric Supply Companies in the Province as electricity duty.

S.No.	Name of the Electric Supply Co.	Electricity duty in rupees for 1942-43.
1.	The B.E.S. & T. Co.	Rs. 23,39,993
2.	The Bombay Suburban Elec.Supply Co.	1,22,463
3.	" Thana Elec. Supply Co. (for 1941-42)	11,338
4.	" Kalyan Elec. Supply Co.	3,051
5.	" Poona " ..	2,69,279
6.	" Ahmedabad ..	1,87,654
7.	" Surat	1,09,292
8.	" Ahmednagar ..	7,118
9.	" Randar	1,422
10.	" Tata Hydo	7,202
11.	" Andhra Valley	7,458
12.	" Tata Power	3,745
13.	" Bhiwandi	1,140
14.	" Broach	2,761
15.	" Godhra	1,360
16.	" Nadiad	1,042
17.	" Amalner ..	747
18.	" Sholapur ..	9,524
19.	" Lonavala-Khandala ..	1,621
20.	" Nasik-Deolali ..	12,988
21.	" Pandharpur ..	230
22.	" Panchgni	1,288
23.	" Gadag	65
24.	" Bijapur ..	774
25.	" Hubli ..	1,430
26.	" Dharwar ..	1,532
27.	" Matheran	551
28.	" Panvel	1,027
29.	" Bulsar ..	1,967
30.	" Barsi	897
31.	" Baramati ..	494
32.	" Bhusaval	947

S.No.	Name of the Electric Supply Co.	Electricity Duty in rupees for 1942-43.
33.	The Bassein Elec. Supply Co.	Rs. 404
34.	" Satara	1,817
35.	" Virgaongaum ..	396
36.	" Kaveri ..	66
37.	" Chalisgaon ..	1,004
38.	" Anand	617
39.	" Junnar	36
40.	" Karad ..	710
41.	" Kahad ..	319
42.	" Udvada-Vapi ..	276
43.	" Malegaon ..	1,281
44.	" Sangamner ..	370
45.	" Sinnar ..	114
46.	" Mahabaleshwar ..	216
47.	" Yeola ..	391
48.	" Khopoli ..	67
49.	" Igatpuri ..	144
50.	" Wai ..	160
51.	" Nannad ..	351
52.	" Dhulia ..	2,134
53.	" Jalgaon ..	1,677
54.	" Chopda ..	95
55.	" Nipani ..	129
56.	" Nira-Lonand ..	222
57.	" Savda-Faizpur ..	110
58.	" Koregaon ..	70
59.	" Jubilee Elec. Works. ..	102
		Total Rs. 31,33,104

ENCLOSURE III

Showing in which Province or State Electricity is taxed including consumption for lighting and fans.

No.	Province or State.	Whether tax is levied or not.	Rate at which tax is levied.	Remarks.
1.	North-Western Frontier Province	Nil	...	..
2.	the Punjab Province	Nil	...	..
3.	the United Provinces	Nil	...	..
4.	the Binar Province	Nil	...	..
5.	the Orissa Province	Nil	...	..
6.	the Central Provinces	Nil.	...	..
7.	the Madras Province	Levied	(i) 5 pies per unit on all energy sold at over annas 2 unit. (ii) Licensees whose total sales do not exceed 16,662 units a month or are less than 2 lakhs of units per year are exempted.	
8.	the Bengal Province	Levied.	(i) Nil for power. (ii) When licensees net charge does not exceed 3 annas. (a) in the case of consumer using not exceeding 15 units .. Nil. (b) exceeds 15 units but not 50 .. 6 pies per unit. (c) " 50 units .. 1 anna " " (iii) in other cases .. .. 6 pies " "	
9.	the Sind Province	Levied	(1) For industries .. Nil. (2) For lights and fans .. one anna per unit in Karahi City, and " " Nine pies per unit elsewhere.	
10.	the Mysore State	Nil	...	
11.	the Travancore State	Nil	...	

On a general file envisaging the future of the Grid in regard to stages of development, staff, cost, etc. the question of electricity tax was referred to the Special Officer's note was attached. It was pointed out that an electricity tax, at any rate one of the dimensions reached in this Province, was Prima facie not in keeping with the aim of the Grid to increase the output and consumption of electricity to the greatest possible level and to make it available at the lowest possible cost, particularly to agriculture and small industries. It was noted at the time that consideration of this question might be postponed to a later stage.

2. The time has come to consider it, for I think, two main reasons i.e.

(i) We are now very far committed, viz.

(a) Machinery has been ordered,

(b) Large staff has been appointed,

(c) At least two hydro-electric schemes are under active examination and planning.

(d) Negotiations with Baroda are almost settled, and the Ahmedabad Electricity Company has ordered machinery costing Rs. 110 lakhs for that zone.

Consideration of the financial outlook and the question of ways and means cannot therefore long be postponed.

(ii) The main point in the Act as at present drafted on which we still have to reach a decision is the vital issue as to what shall be charged for re-sale of bulk electricity. Leaving aside the question of subsidy in the form of cheap electricity at perhaps lower than cost price to agriculture and small industries for the first few years,

this is the main factor on which depends the question whether the Grid will either balance or not balance its expenditure in the beginning. It is also the question which most vitally concerns the big electric concerns and on which will depend their co-operation with any degree of willingness. It was clear at the initial confidential meeting with leading representatives that this was the main question exercising their minds.

nn As Mr. Nelson on behalf of Tatas put it, 'Tatas generate 9/11 of the total electricity at present. If therefore you sell it back to them with a surcharge, you are going to make them pay for your Grid. He was of course informed that this was not the intention and that companies must pay according to extra value received, though it was hinted that their profits were unduly high and that some diminution might be inevitable.

This is the matter on which we shall have to give some kind of decision at the next confidential meeting with them which I promised them as soon as the Act had assumed final form. This was expected to be some time ago, but has been held up by the ruling that the Act is in toto ultra vires in its present form.

3. It is of course obvious that for some years to come we shall not be able to increase Tatas' business directly or indirectly and the purchase and resale of bulk electricity to that Company will be merely a book transaction so far as they are concerned. We shall be developing other areas to begin with.

4. Mr. Advani's note puts the considerations clearly, and it has been written after several conversations between us on the subject and he has

discussed the question with Jt. Secy. F.D.

5. I agree with himmthat we ought to adopt the English Act procedure. This is equitable in itself and fainlur to do so will involve distrust of the Grid from the Very beginnig. It would mean that we can add a 'proper portion of the Board's expensess' (Sec. 29(2) (a) of draft Act) only when either (i) the activities of the Grid increase the load of a particular selected station and thus reduce its generating costs or (ii) when, indirectly, 'stand-by' charges are lowered, i.e. when by linking up sources of electricity resulting in the assurance of power from other sources, if necessary, a station need not keep so many turbines in reserve.

(For the information of laymen like myself 'Board's expenses' in this connection mean roughly overhead charges, i.e. mainly headquarter charges as opposed to cost of constructing and maintaining the Board's own stations).

6. As to future policy re. Electricity Tax, I am of course aware of the financial principle that income from one head cannot be allocated to expenditure under another head. But it should not be incorrect to levy tax on the basis of Government's expenditure in subsidising the Grid. I take it that the considerations would be:-

(i) Is the very heavy electricity tax which obtains in Bombay Province (as compared with all other Provinces) consistent with the objects (post-war) of a Grid?

(ii) If not, is a smaller tax justifiable? If so, should it be related to actual lighting as opposed to e.g. agricultural concern, small industries etc.?

(iii)....

(iii) Should in the meantime a larger tax or the difference be earmarked to subsidise the Grid?

On this point, I should say that even so, there ought to be a reduction of tax as soon as the Grid begins to function.

7. We thus require F.D's advice on —

(a) Section 29(2) (a) of the Draft Act in respect of adopting either (i) English practice or (ii) charging all selected Stations whether they obtain benefit or not.

(b) Future of the Electricity Tax.

8. I would be grateful for such expedition as is possible. It is true that the Act is held up indefinitely by the ruling of ultra vires in respect of 'trading concern'. But Central Govt. has been asked for urgent assistance and Special Officer will be visiting Delhi Next week to expedite. As soon as we get a decision on that point, we must complete the Act and have a second meeting with the representatives of the Companies as early as possible.

9. I mark for A (F), as he saw the previous papers and for A (E), as he took part in the first meeting with the Companies' representatives as Adviser Industries, before the papers go to F.D.

Yd/-
14-11-44

A (E)

A (F)

F. S.

1. I agree that a tax on Electricity is undesirable as we need to give as much cheap light and power as we can.

2. But the Method of obtaining such cheap power and light needs examination with great care. i.e. whether the general taxpayer shall subsidize the consumer of electricity - i.e. e. g. the Bhil in Dhadgaon shall pay more taxes so that Bombay mills shall have cheap power, - or whether we aim at equalising the cost of electricity to the electrical consumer e.g. the cost of supplying power for pumps in the canal areas, would be covered by raising the price to consumers whose present sources of supply give them cheap current.

3. It may be that <u>both</u> methods must be employed i.e. state subsidy plus levelling of costs on averaging all production costs.

4. I confess I doubt the validity of the English example. I believe that the English grid has been little value in extending use of electricity in Rural areas and that prices of current in rural areas are still so high as to discourage use. As a layman I greatly doubt the utility- for our purpose of extending use of electricity - of adopting the proposal that e.g. Tatas shall not pay more for current than it would have cost them to make it. To adopt this would in my view tie future Governments hands against improvements.

5. That in its initial stages the Grid will have to be subsidized, I agree.

But as F.D. I hesitate to - in fact without an alternative, I cannot - accept the loss of 30 lakhs revenue p.a., when we have to raise at least 2 crores p.a. extra recurring taxation for our P.W.R. plan. If we give up the electricity tax, we shall have to raisean equal sum elsehow.

6. I doubt the propriety as well as the utility of Government now accepting an arrangement which, as has been done in England, appears to prevent the favoured electricity user paying part at least of the burden, which the general taxpayer will have to shoulder for giving cheap electricity at below cost elsewhere.

7. As I said, I agree the taxpayer will have to help the Grid on to its legs, but I dou not think we should adopt a method which may - in my view almost certainly- prevent the Grid ever paying its costs.

8. The subsidy to the Grid - whether direct or by release of taxation - will have to be examined as part of our P.W.R. financial estimates, and cannot be considered in vacuo (even if electricity prefers that local for its appearance).

Id/-
16-11-44

F.D.

I kept this file for discussion with Mr. Advani and have since discussed with him the various issues raised. On one issue, namely, the future of the electricity duty in this province, I find myself unable to agree with him. I shall deal with this point first..

2. In dealing with the future of the electricity duty vis-a vis the Grid three

propositions may be laid down which seem unexceptionable:

(1) To the extent that the retention or extension of the electricity duty is inconsistent with the major object of the Grid--viz. the supply of cheapk electrical power for industrial development throughout the province-- the duty should not be retained, and should not be extended.

(2) To the extent that the electricity duty is not inconsistent with the major object of the Grid, its retention or extension should be judged solely on its own merits as a source of general revenue, the main criterion being whether it taxes those who are best able to bear the tax.

(3) Once the duty is adopted on merits as a source of general revenue, the mere fact that it is derived from electricity cannot give the Grid any special claim to the proceeds from the duty.

Each one of these points may now be examined.

3. As regards (1) it is relevant to mention the following facts:-

(a) The duty is at present confined to certain urban areas of which the more important are: Bombay City, B.S.D., Thana and Kalyan; Ahmedabad, Poona and Surat; and Belgaum and Ahmednaggr. For the first 5 or 10 years at any rate many of these ~~(i.e. those by existing licensees)~~

areas (i.e. those covered by existing licenses) are unlikely to be developed by the Grid, since the Grid's attention would be directed initially to the less developed areas.

(b) The duty is levied on such energy only as is consumed by lights and fans. Even in respect of this limited type of energy, local authorities, Railway administrations, etc. are exempted, as also all Industrial undertakings, except where the lights and fans pertain to premises used for residential and office purposes. It may be emphasized that electricity used as power for industries is not taxed at all. Thus, in so far as the Grid is likely to help develop new industries, neither the retention nor the extension of the duty is likely to hinder fulfilment of its objective. Moreover, the duty need not be extended to new areas, particularly rural areas, if it is thought that that would make the use of electricity unpopular-- e.g. for lights and fans for rural areas-- and the existence of the duty could thus be made to fit in with the objects of the Grid.

4. As regards (2) the following points may be mentioned:-

(a) There are two rates, a higher one for consumption exceeding 12 units and a lower one for consumption of 12 units and below.

(b) Much the largest part of the revenue, viz. about 3/4ths, comes from the Bombay City and B.S.D. The major part of the balance comes from Poona, Ahmedabad and Surat,

while revenue from the other areas is almost negligible.

(c) In the current year it is estimated that receipts from electricity duty will amount to about Rs. 40 lakhs. Out of this about Rs 30 lakhs is from Bombay City and S.S.D.

(d) Out of this 30 lakhs, again, more than 65% is from consumers of above 12 units.

I think it will be seen from these figures that the main burden of electricity duty falls on shoulders best able to bear it viz. those in urban areas who consume fairly large amounts of electricity for their lights and fans. Moreover, when the duty was raised in 1938 and again in 1939, Govt. first negotiated with the Companies and persuaded them to make a corresponding reduction in their charges so that the net cost to the consumer has remained the same in spite of these increases. It is submitted that it would be difficult to devise a substitute for electricity tax which, while producing as much revenue, would be as equitable in its incidence. The tax as it stands is one which can be justified on its own merits.

5. Proceeding now to the third point, namely, whether proceeds from this tax should be earmarked for the Grid, the following reasons against such a course may be mentioned:-

(a) First of all there is the financial principle alluded to by A(R), namely, that a particular ~~it~~ item of revenue should not be allocated to a particular item of expenditure.

(b) Even if such allocation were to be considered, there is no reason why electricity duty should be chosen rather than say Entertainment Tax or Betting Tax. There is little inherent connection between the proposed functions of the Grid and the revenue xxx collected from certain consumers of electricity in certain areas to the electrical development of which the Grid has made no contribution and is not likely to make any contribution in the near future.

(c) Any subsidy from the State must be correlated to the needs of the Grid as they exist from time to time. It might in fact be a bad arrangement to link the subsidy to a figure which has not logical connection with the financial needs of the Grid as they exist from time to time. Even if the intention were merely to secure an assured income to the Grid, the position is that revenue from electricity duty has fluctuated considerably since it was first introduced. The following figures give the annual revenue from 1939-40 during which year the latest increase in duty was effected:-

		(in thousands of Rs.)
	1939-40	29,22
	1940-41	32,85
	1941-42	36,52
	1942-43	34,52
	1943-44	41,20
(Revised)	1944-45	40,00

The figures for previous years are as follows:-

	(in thousands of Rs.)
1933-34	9,40
1934-35	8,73
1935-36	9,69
1936-37	10,06
1937-38	12,07
1938-39	17,51

For these reasons it seems to me that the amount of financial assistance to the Grid should be entirely independent of the revenue derived from time to time from electricity duty.

6. The second issue raised on this file concerns the principles on which "selected stations" should be charged for their own electricity resold to them. The specific question is whether these stations should, as under the British Act, be protected against being charged, for such electricity, more than it would have cost them to produce that electricity had the Grid not been in existence.

7. Clause (a) of Section 29(2) of the Draft Bill operates in the absence of (i) a special agreement and (ii) a lower general tariff. Under this clause the selected station is charged "cost of production" (ascertained in accordance with the Second Schedule) plus " a proper proportion of the Board's expenses other than those incurred by the Board in the purchase or generation of electricity". The charges under clause (a) may in some cases by actually lower than the cost which the selected station would have incurred but for the existence of the Grid. That would be on account of conditions brought about by the Grid by rationalising supply or by developing consumption or by a combination of both these factors. In such cases, part of the overheads of the Grid is in fact recovered from the selected station, and the position is unaffected

by....

by the application of the principle of the British Act.

8. In those cases where the existence of the Grid has not resulted in any economy in the cost of production the position is of course quite different. Coming from concerns of this type--e.g. Tata's-- it would, I submit, be a very valid objection that whatever they are made to pay in excess of their independent cost of production is in effect a levy towards the maintenance of the Grid. If the levy is passed on to the consumer, it amounts to an additional duty on the electricity consumed in areas served by that particular concern only. If it is not passed on to the consumer-- and it is not likely to be passed on if the amount is relatively small--it must be paid for from the profits of the particular Company. There is nothing inherently unfair in the latter arrangement, and, provided the profits of the Company are large enough to bear such an incursion, the main questions to be then considered would be whether the levy is (i) expedient and (ii) financially necessary. The following figures of net profits made, dividends declared, and agency commissions paid by the three Tata concerns d during the past few years do indicate that, in their case, the margin of profit can well bear a further encroachment by the State.

	Tata Hydro Electric Electric Power Supply Co.		Andhra Valley Power Supply Co.		Tata Power Co.	
	I	II	I	II	I	II
1940	29.7 (7½%)	1.77	22.4 (7½%)	3.09	38.5 (6½%)	6.75
1941	22.9 (7½%)	1.82	18.4 (7½%)	3.46	30.6 (7%)	7.78
1942	23.3 (7½%)	1.61	19.8 (7½%)	3.24	31.7 (7%)	7.39
1943	20.6 (7½%)	1.51	19.0 (7½%)	3.19	28.6 (7%)	7.40
1944	19.2 (7½%)	1.58	17.6 (7%)	3.23	32.9 (7%)	8.54

I denotes Net profit (lakhs) and ( ) dividend (%).
II " Agency Commission (lakhs)

9. If mere expediency were considered, it is clear from what has been pointed out earlier by A(R) that it would be desirable to accept the principle of the British Act, since the willing co-operation of the biggest group of electricity undertakings in the Province -- the Tata's--is not likely to be obtainable otherwise. But the over-riding consideration must be the effect of the financial prospects of the Grid of the acceptance of the principle.

10. I submit that the acceptance of the principle is not likely to make any great difference to the financial prospects of the Grid.

It is undoubtedly a basic requirement that the Grid should ultimately pay entirely for itself and not be a liability in any degree on the general revenues of the Province. That is to say it should be able to supply cheap electricity to industrial and other consumers, urban and rural, throughout the province, not on account of a subsidy in effect paid to such consumers by the State, but because it has really achieved a drastic reduction in the cost of electricity by developing demand and rationalizing production and distribution.

In this process the Grid will have set up its own generating stations with capital provided by Govt. or borrowed from elsewhere. All overhead charges, interest, depreciation etc. separately allocable to each such station should--just as if it were

were a station set up by private enterprise--be eventually recoverable as charges for electricity supplied. In the case of the Grid this will not be possible during the initial stage when an area is being "developed", and at that stage difference will have to be made up by a subsidy from general revenues. But in no case can the difference be passed on to the "general overheads" of the Grid.

These latter, i.e. the "General overheads" are what we are concerned with in considering the acceptance or otherwise of the principle of the British Act. The total amount involved in such overheads, as distinguished from the specific overheads and other charges pertaining to individual generating stations owned by the Grid, cannot be very large. According to the figures given in the P.W.R. Blue Book the amount in question is about Rs. 2½ lakhs p.a. during the first two years of the Grid and about Rs.5 lakhs p.a. thereafter. When the Grid is sufficiently developed, it may be expected that these ~~were~~ overheads will, in addition to those of specific stations, be entirely passed on to the consumer. Part of the general overheads will in any case be paid for, from the beginning, by certain companies in the manner described in para 7 above. As for the balance of this relatively small amount it is submitted that general revenues might appropriately bear the charge until such time as the expanded activities of the Grid enable it to balance its finances. The major deficit of the Grid is likely to arise not on account of its general overheads but on account of its individual generating stations not being able, for a long time to come, to produce electricity at a cost which is cheap enough to stimulate demand in the rural

rural areas etc. it sets out to develop. That definitely involves subsidy, and the extent of such subsidy must, as indicated by A(R), be separately examined and fixed.

11. Finally, there is one point which I think merits further examination. Under Section 22(2) of the Draft Bill "the owners of a selected station shall be entitled to be supplied by the Board from that station at the price settled in this behalf by the provisions of section 29, with such quantity of electricity as they may require for the purposes of their undertaking not exceeding the quantity generated at the Station". This may be compared with Section 25(2) which refers to the licensee of a generating station which is shut down. A licensee of this kind is entitled to be supplied from the Grid "such quantity of electricity as he may require for his undertaking but not exceeding the quantity as such station or part thereof, as the case may be, generated before it was shut down." Section 22(2) contains no similar restriction in regard to the quantity to be supplied by the Grid.

Correct

Now, suppose a selected station had been producing X units before the Grid came into existence and that, because of the Grid's requirements, it produces a total of 2X units with only little additional cost (on account of the increased load), so that cost per unit is much less than it originally was. Is the selected station entitled to buy back all the 2X units (thus encroaching on the Grid's requirements) or, in any case, more than X units, <u>at the cheap rate</u> for which the Grid's activities have been responsible?

If so, can it not be argued that the selected station, while on the one hand prepared to derive benefit from the Grid if the existence of the Grid results in reducing cost of production, is on the other hand not prepared to pay adequately for the benefit? The remedy, it seems to me, is to amend Section 22(2) so as to limit the amount of electricity which a selected station is entitled to get at the cheaper cost made possible by the Grid. This limitation would be all the more necessary if the principle of the British Act is adopted.

Id/-
12-12-44

Secy., R.C.D.

We had better discuss this before I note.

A(R).

A(F).

14-12-44

Special Officer.

Discussed on
23-12-44

No. Elg. 3/531
Dated 22nd Dec. 1944
A(R. & P.W.D.)
Bombay.

I have already indicated that the second question, viz. that of the proper share to be paid by Companies towards the Grid expenditure is one to be decided now and the other, i.e. future of electricity taxation, was raised because in deciding the other it was desirable to have a general picture of how the Grid is to be paid for.

2. The second question has now become immediate. The position re. Bill is that it has to be fully completed for C. of I. to introduce it in the budget session in February 1945, and this is the major outstanding point. I request therefore immediate orders on it — and my present note will be on that basis and my remarks on the other point will be of a general nature.

3. A (F)'s note of 16-11-44 indicated that he was not prepared to accept the British principle without further examination and consideration. Jt. Secy. F.D's note, as I read it, shows that he is in favour of accepting it (subject to an indirect point raised by him, into which I deal below).

4. I think it is as clear as anything could be that we ought to accept, and should be wise in accepting, the British principle at any rate for the first few years. I summarise the arguments in favour, repeating them in some cases, as follows:-

(a) Messrs Tatas at present generate about 5th of the electricity and the other big concerns most of the remainder. If therefore the percentage was levied, they would in the first year or two pay almost the whole overhead expenses of the B-

whole overhead expenses of the Board. This was pointed out by their representatives at the meeting. We have therefore the choice between obtaining their co-operation by adopting the British principle, -- and I believe it would be willing co-operation, since they recognise their inability to provide electricity to agriculture and small industries without subsidy --, or their opposition direct or indirect. I think the former is an important object to be gained.

(b) The English principle also seems correct on the point of equity. I suppose the argument against it on this point might be that concerns which have grown rich in the purveying of electricity might expect to forego some of their profits in making that commodity available to the countryside and smaller concerns. It might, however, be argued that any industrial concern which had similarly prospered should so contribute and it does not appear logical that, merely because electricity is the commodity that is sought to be made available as a nation-building project, the cost should be borne by those who have hitherto dealt in the commodity, prosperously it is true, but at the same time as not able pioneers of national development.

(c) From what I have been able to gather, it is certain that, even if we wish these Companies to bear the cost, this will not be accepted by the Govt. of India, who have to pass the Act. Their Policy is not lightly to disturb existing interests and they attach much importance to the recognition of past individual enterprise and to assisting and ensuring it in the future.

5. I trust therefore that A (F) will be able to concur and I should like to have a firm decision before January 17th which is the date now proposed for a conference between the representatives of the Electrical Commissioner to the Govt. of India and the ~~the~~ representatives of this Govt. to give final shape to the Bill which has to be examined by the Govt. of India and subsequently introduced in the budget session of the Central Legislature from next February. If the facts are still not fully clear, A (F) might like to discuss with Financial Officer and myself.

6. The subsidiary point raised by Jt. Secy. is that he is not clear why, whereas the Bill provides that when stations are closed down, the owners (who will still retail electricity over their lines) shall be entitled only to a maximum of the amount of electricity they were generating before the Grid station was closed down came into force, it is provided that stations not closed down shall be entitled to maximum of the full amount of electricity they generate after the Grid comes into force. The distinction does of course appear illogical at first sight, but it is not really so. The Grid provides for maximum extension of electricity whether purveyed through selected stations as retailers or by the Grid authority itself to areas not reached from the selected stations. The point is that big extensions usually implying additions to machinery can be foreseen some time ahead and take some time to provide. If for instance it was found that a selected station was going to be able to build up sufficient extra load to use all its electricity, and even

even the increased electricity, generated by it after the Grid came into force, the Grid Board would have ample notice to meet this position. It could supplement the amount required from other parts, remembering that the Grid means inter-connection of electricity, or by putting in a diesel engine. The Act also provides that the Board can require a selected station to increase its machinery and output. Thus developments will always be foreseen well beforehand. There need therefore be no apprehension about following the English Act in this respect.

7. As stated above, I make only general observations at this stage on the points made by A (F) and Jt. Secy. F.D. on the question of gradual decrease of the electricity tax and of using it to meet the expenditure of the Grid and they are as follows:-

(a) I do not seem to have made it clear that, while I recognised the financial objection to earmarking entirely receipts to expenditure, I see no objection to the principle by which a particular form of taxation is meant <u>generally</u> to meet a particular head of -- in this instance nation-building -- expenditure. This has been so in the case of the property tax in respect of prohibition and it will be done, if we envisage extension of the tax for improved milk supply. It was followed in the case of roads in Europe. My suggestion was merely a general one to the effect that (i) we should recognise that the tax at its present rate is not

not justified (ii) it should be reduced as and when the Grid begins to pay its way.

There could scarcely be and objection to this. It is, however, entirely for Govt. and P.D. to decide the means of paying for the Grid. P.W.D. must be satisfied that it has been decided to meet the expenditure and can merely suggest the means of doing so.

(b) As to extent of tax, it must now surely be accepted that, whereas the tax was imposed as a luxury tax, electricity is now an essential commodity necessary for every class of the community. This was suggested by H.E. when I discussed war electricity control with him and he considered that it should be operated in conformity with a policy that electricity is a necessary article these days and particularly to officers working in conditions necessitating light and fans.

(c) Our tax is on a scale far in excess of that in other parts of India apart from the principle, concurred in by A (F), that such a tax is inconsistant with the avowed policy of making electricity available to the fullest extent at the lowest rate to all classes.

In this respect, I fully agree with Jt. Secy. P.D. that there should be a distinction between (i) (a) domestic lights and fans (b) industries and (ii) dwellers in large cities as compared with the small towns and the country side. Nevertheless is a 50 per cent tax on light and fans in Bombay justified? Various means suggest themselves —

for instance:-

(1) there might be, even in Bombay and the other cities where the tax applies, a distinction between domestic consumers using 12 units or less and those using more. The tax might be decreased in respect of the latter and taken off entirely in respect of the former.

(2) It should apply only to City or Borough Municipalities, other towns being exempted. In the case of the former there could be distinctions according to size.

(3) The maximum of 50 per cent is too high.

(4) As before, the tax should apply only to lights and fans.

6. Perhaps F.D. can take up this question again after a decision has been reached on the other question.

Id/-
29/12/44
3/1/45

A (F)
H.E. (C.S.)

1. After Jt. Sy. F.Dis examination and s 10 I accept the English method.

2. I am afraid I do not understand A(R)'s 86 viz. This point raised by the Jt. Secy. F.D. and it should be greatful for elucidation.

3. I suggest that this question of detention or otherwise and the Electricity Duty should be considered separately for (a) We know Government will have to subsidise this Grid at any rate in its early stages.

(b) This Electricity Duty, which in theory is a luxury tax, is a proper one during the war when we want to curtail the use of Electricity and there is no reason to contemplate its reduction or abolition at present.

(c) I do not know what is S.O., latest estimate of this subsidy which this Grid will require. If this is likely to be more than we get from the Electricity Duty, it is acquisite that this proper course, will be to abolish the Electricity Duty and allow this Grid to impose a surcharge or Electricity sufficient to make good its deficit. This would avoid the "Earmarking" a taxation by Govt., would imphasise the commercial nature of this Grid. (I do not admit the analogy of milk to Electricity in a fact my proposal regarding milk is the Govt. to hand U.I.P. taxation to this local authority on condition it carries or milk supply etc. i.e. giving Grid while to impose surcharge. Provided it supplies Electricity).

(d) Meanwhile I agree that the Electricity Duty is a bad peace time tax. But I do not think we can now decide how to Finance this Child - until we have an estimate of this probable Govt. financial help required, any how. We may have to subsidise will above this proceed of the Electricity Duty, in which case we cannot reduce it. It may be, we shall have to subsidise less than the Electricity Duty, therefore which case we may be able to reduce the Electricity Duty, substituting some other tax if necessary.

(e) But these are in my view problem. Which need not be considered now, unless it is thought that A in 3 (c) is desirable i.e. out the free from Govt. subsidy.

Id.
5-1-45.

Being confined to my room that not been able to see A(F) and Elice and orally the point refered to in para 2 of this note.

2. If he agrees, I suggest that the papers may in the meantime go th H.E. for concurence in adopting the English method. (A(F)'s pama. 1), I will then Elicidate the other point on return.

3. I agree that the papers can then go back to F.D. for further examination of the Electricities tax, but I will in due course note on the points raised by A.(F).

Id.
6-1-45.

A (F)

Ref. of 2 above, H.E. agrees with A(F)'s para one.

Id.
7/1

Jt. Secy. F.D. and special officers may be for information.

Jt. Secy. F.D.

Id.
11/1

Noted and passed on with compliments to the Sec. to Govt. P.W.D.

Id.
13-1-45

Sec. to Govt.

P.W.D.

u.o.r. No. Elg. 123/629

Bombay 13th January 1945.

Public Works Department.

P.W.R.B.

Seen and passed on to the F.D.

Id.
19-1-45

V.Urgent.

u.o.r. to the F.D. dated 23-1-45.

Finance Department.

In connection with the future policy of Govt. regarding Electricity Duty, A(R) has directed that this Deptt. should further examine the following points:-

(a) there might be, even in Bombay City and other Cities where the tax applies, an distinction between domestic consumers using 12 units or less and those using more. The tax might be decreased in respect of the latter and taken off entirely in respect of the former.

(b) it should apply only to City or Borough Municipalities, other towns being exempted. In the case of the former there would be distinction according to size.

(c) the maximum of 50% is too high

(d) the tax should apply, as hitherto, only to lights and fans.

The following note is accordingly put up for consideration.

2. The electricity duties were first levied in this Province by the Finance Act of 1932. Under that Act a tax of six pies per unit was levied on electricity energy consumed for lights and fans, wherever the total energy consumed exceeded 12 units. In 1938, this duty was increased to nine pies per unit when total consumption exceeded 12 units in the case of the following cities and towns

1 Bombay
2 Ahmedabad
3 Surat
4 Thana
5 Kalyan
6 Poona
7 Belgaum
8 Bombay Suburban area
and 9 Bhiwandi

and in the other areas the original rate of

six pies per unit was retained. For the increase of three pies per unit in the case of the above-mentioned nine cities and towns, Govt. obtained a counterbalancing reduction in the supply rate by negotiations with the Electricity Companies. Govt. also appointed a separate Committee to investigate into the rates of all Electric Supply Companies of more than seven years' standing and recommend the maxima rates which they can be allowed to charge. This Committee investigated the rates of 25 Supply Companies which were of more than seven years' standing and recommended certain reductions in their maximum supply rates. On the basis of these reductions, Govt. increased their electricity duty in 1939 in the following manner:-

Area of supply	Rate of duty per unit of consumption Where consumption does not exceed 12 units.	Where consumption exceeds 12 units.
(1) Bombay City	1 anna	1½ anna
(2) Ahmedabad	1 anna	1½ anna
(3) Surat	1 anna	1½ anna
(4) Thana	1 anna	1½ anna
(5) Kalyan	1 anna	1½ anna
(6) B.S.D.	3/4 anna	1½ anna
(7) Poona	3/4 anna	1½ anna
(8) Ahmednagar	½ anna	3/4 anna
(9) Rander	½ anna	3/4 anna
(10) Bhiwandi	nil	3/4 anna
(11) Belgaum	nil	3/4 anna
Other areas	nil	½ anna

3. The duty was increased only in the case of the above 11 cities and towns, and in other areas it was retained at the same level as in 1932. As even in the case of these 11 cities and towns where the rates were increased, Govt. ensured a corresponding or a larger reduction in the rates of supply, the consumers remained unaffected by the increased duties. Actually in some cases, the consumers were benefited.

instance, a consumer in Bombay City using

20 units a month for lights and fans, gets benefit of 7 annas a month over the charges he paid in 1938 and of 12 annas over the charges he paid before 1938 as shown below.

1-4-1932 to 1-4-1938.

Supply rate For the first 14 units at 3½ annas per unit	Rs. 3-1-0
For the next 6 units at 3 annas per unit	Rs. 1-2-0
	Rs. 4-3-0
Tax Electricity duty at six pies per unit	Rs. 0-10-0
Total charge ..	Rs. 4-13-0

1-4-1938 to 31-3-39.

Supply rate For the first 14 units at 3 annas per unit	Rs. 2-10-0
For the next 6 units at 2½ annas per unit	Rs. 0-15-0
	Rs. 3- 9-0
Tax Electricity duty at nine pies per unit	Rs. 0-15-0
Total charge ..	Rs. 4- 8-0

After 1-4-1939.

Supply charged at 2 as. per unit for all 20 units	Rs. 2- 8-0
Electricity duty at 1¼ annas per unit ..	Rs. 1- 9-0
Total charge ...	Rs. 4- 1-0

4. It may however be argued that Govt. should have passed on to the consumers the reduction secured by it in the supply rates of electricity. This argument was met by Mr. Latthe in his speech introducing the Bill for increasing the duty and an extract from that speech is reproduced below:

> " It has been sometimes argued that the reduction in prices secured from the supply companies should go to the benefit of the consumers. This is quite true as far as it goes, and nobody can dispute the fact that electricity should be made as cheap

cheap as possible, and Government ought to make a every attempt to secure cheap electricity to the public. But at the same time it has got to be remembered that for the essential purposes of expenditure which Government have got to incur in the interests of the public, taxation has got to be resorted to, and the various measures which have been placed before the House are intended to make this new taxation as equitable and as less burdensome as possible. No taxation can be free from the fault of being some sort of burden on some class of people or others. Human ingenuity cannot devise a taxation which will be absolutely unobjectionable from the point of view of its being a burden on some people. But the aim is to see that the taxation is as equitable as possible and as least burdensome as it is possible to make it"

5. Another objection to the existing duties is that they are on a scale far in excess of similar duties levied in other parts of India. Among the other Provinces, only the provinces of Bengal, Madras and Sind have levied electricity duties. Their rates are as shown below:-

Bengal. ... (i) Nil for power
(ii) Where the licensee's net charge does not exceed three annas -
for units not exceeding 15 .... nil
for units exceeding 15 but not 50 .. ..6 pies per unit
for units exceeding 50 ....1 anna per unit
(iii) in other cases .. .. six pies per unit.

Madras. (i) 6 pies per unit on all energy sold at over two annas a unit
(ii) licensees whose total sales do not exceed 16,662 units a month or are less than 2 lakhs units a year are exempted.

Sind. ii. (i) nil for industries

(ii) in other cases-

one anna per unit in Karachi City

Nine pies per unit in other areas.

It is true therefore that if only the tax rates are compared, the rates in this Province are higher than those levied in other provinces. But this would not be a correct comparison. It will have to be seen whether the total charges paid by the consumers in this Province are also higher than those paid by the consumers in other Provinces. The table below gives the comparison:-

Bombay City per unit	Madras City per unit	Karachi per unit	Calcutta. per unit
(1) For consumption exceeding 12 units. 0- 2- 0	(1)For lighting 0-4-0	For lights & fans 0-3-6	(1) For consumption upto 15 units 0-2-0
Tax. .. 0- 1- 0	Tax .. 0-0-6	Tax 0-1-0	Tax. .. nil
Total 0- 3- 0	Total.. 0-4-6	Total 0-4-6	0-2-0
(2) For consumption exceeding 12 units 0-2-0	(2) For light & fans on combined circuit -		(2) For consumption between 15-50 units. 0-2-0
Tax 0-1-3	(i)For the first 50 units. ..0-3-6		Tax... 0-0-6
Total ... 0-3-3	Tax ... 0-0-6		0-2-6
	Total. 0-4-0		(3) For consumption above 50 units 0-2-0
	(ii) For excess ~~of~~ above 50 to 500 units 0-3-3		Tax. 0-1-0
	Tax 0-0-6		0-3-0
	Total 0-3-9		

It will be observed that next to Calcutta, the charges in Bombay are the lowest. Further the Provinces of Madras and Sind do not give any exemption from duty for the smaller consumers, whereas in this Province excluding about nine cities and towns, consumption below 12 units is exempted from duty. It was this difference which apparently led to the following comments by the "Indian Finance" when in 1941, interested parties started an agitation against the electricity duties both in the Press and in the Municipal Corporation.

"It might be claimed that the City should have a share of the electricity duty which according to Mr.Noel-Paton is being used by Govt. to the deteriment of the industry merely to produce money lost through prohibition. To adopt this view is easy, but comparisons made with Madras and Bengal have no application

application in view of the fact that electrical energy in Bombay is as cheap as can be and the duty looks high only in relation to the price paid by the consumer and is not higher than what is paid elsewhere.

6. A third objection is that the present duties come in the way of popularising electricity. The following figures of annual consumption of electrical energy show that this objection has not much force:-

Year	Millions of units sold.
1930-31 ..	367
1931-32 ..	422
1932-33 ..	418
1933-34 ..	380
1934-35 ..	480
1935-36 ..	510
1936-37 ..	522
1937-38 ..	617
1938-39 ..	662
1939-40 ..	650
1940-41 ..	792
1941-42 ..	952
1942-43 ..	953
1943-44 ..	1083

The figures show that the consumption of electricity is increasing every year and the electricity ~~in~~ duties have had no adverse effects on consumption.

7. It will thus be seen that

(i) that the electricity duties levied by this Govt. have not increased, in any way, the total charges paid by the consumers of electricity

(ii) that these total charges paid by the consumers in this Province, are not

higher than those paid by consumers in most other Provinces, and

(iii) that development of the use of electrical energy has not been restricted, as is assumed, by the levy of these duties.

I

It has however been suggested by A(H) that in view of the avowed policy of making electricity available to the fullest extent at the lowest rate to all the classes, the duty might be decreased in respect of those using more than 12 units and abolished altogether in the case of those using less than 12 units. It will be seen from the table in para. 2 above, that the duty has been levied at the maximum rates only in Bombay City, Ahmedabad, Surat, Thana and Kalyan and at lower rates in the case of B.S.D., Poona, Ahmednagar and Nander. In other areas no duty is levied on consumption of 12 units or less and a small duty is charged on consumption exceeding 12 units. The case for reduction of duties in each of these cities and towns may be examined. In Bombay City, which brings in about 3/4ths. of the total revenue from electricity duties, 27 million units are consumed by persons using more than 12 units and about 3 million units by persons using 12 units or less. It seems rather doubtful whether the abolition of the duty on consumption of 12 units or less will substantially increase the total consumption under that class. Usually in chawls of one or two-rooms tenements, the landlords do not fit in separate meters for each of their tenants but have a common meter for the whole building and charge the tenants at flat rates on the basis of the number of lamps in each

tenement. The abolition of duty on 12 units or less will not persuade the landlords to fix separate meters for their tenants as most of them make a profit at present by charging the tenants at flat rates. Accordingly these tenants are not likely to get much benefit from the abolition of duty and their consumption of energy is also not likely to increase appreciably. The reason why some of the chawls have no electrical fittings for lights seem to be the heavy cost of such fittings and not the burden of the duty. It is usually the three or four-rooms tenements which have the three separate meters and consume about 12 units or less of electricial energy. The tenements are occupied by middle class persons who are well able to bear the duty of 12 annas or less a month, which in any case has not increased their previous electric bill. Even so, there is no reason why these people should not bear this duty. As pointed out by Mr.Perry when the question of increasing the duty was under consideration of Govt. - " one justification of the duty is that it countervails the duty on Kerosene. Kerosene is the poor man's lighting material and the kerosene duty is subject to no exemption limit. Electricity duty ought to be subject to no exemption for small users" There seems less justification so far as Bombay City is concerned, for the abolition of the duty on consumption of 12 units or less as it falls on those who are able to bear it, and not on the poor labour classes or on the lower middle class persons. No material advantage would be gained by losing a revenue of Rs. 3 lakhs which is at present derived from this class of consumers. Those who consume more than 12 units of energy are generally

generally well-to-do people whose consumption of electrical energy for light or fans is not likely to be affected by the retention of the existing duty or increased by a reduction thereof. In other words, except for some consumers on the margin, these consumers are not likely to go in for more lights and more fans than are necessary merely ~~xx~~ because the duty is lowered. The ~~xxxxx~~ scope for development of electrical consumption in Bombay City appears to be rather limited in comparison to other areas. Further it seemsx that even the Grid Scheme will concentrate more on popularising electrical supply in mofussil towns and rural areas. It seems therefore that so far as Bombay City is concerned, there should be no objection to retaining the duties at the present level.

6. The case of other cities and towns is however different. The earnings of the people in these areas are comparatively low and even a tax of few annas affects their consumption. The Grid Scheme will regulate and cheapen the supply of electrical energy in these towns and a reduction in duty will encourage consumption. In respect of these towns and cities, A(R) has suggested that the duty should apply only to City or Borough Municipalities, other towns being exempted. As already stated, the increased duties are not levied in all the cities and towns and most of thim pay the old rates of duty levied in 1932. Only the following towns pay duties at the increased rates, and these rates may be reduced as proposed below:-

Borough Municipalities	Present Rates		Proposed Rates.	
	For 12 units or less	For more than 12 units.	For 12 units or less.	For more than 12 units.
	Rate per unit.			
Ahmedanad ..	1 anna	1½ anna	3/4 anna	1 anna
Surat ..	1 anna	1½ anna	3/4 anna	1 anna
Thana ..	1 anna	1½ anna	3/4 anna	1anna
B.S.D. (Bandra)..	3/4 anna	1½ anna	3/4 anna	1 anna
Poona. ..	3/4 anna	1½ anna	3/4 anna	1 anna
Ahmednagar. ..	½ anna	3/4 anna	½ anna	3/4 anna
Belgaum ..	Nil	3/4 anna	Nil	3/4 anna
Other Municipal towns.				
Kalyan ..	1 anna	1½ anna	½ anna	3/4 anna
Rander ..	½ anna	3/4 anna	½ anna	3/4 anna
Bhiwandi ..	Nil	3/4 anna	Nil	3/4 anna

There are certain anomalies in the present duties. For instance Kalyan pays the same duties as Ahmedabad and Surat and these are higher than those paid by Poona and Ahmednagar. Belgaum has no duty to pay for consumption of 12 units or less while Ahmednagar and Rander have to pay ½ anna per unit. These anomalies have arisen because the increase in the rates of duty was based on the reductions in the supply rates recommended by the Electricity Advisory Committee and secured by Govt. by negotiations with the Supply Companies. The reduced rates proposed above, remove those anomalies as far as possible. It is proposed to have a uniform rate for the five bigger towns of Ahmedabad, Surat, Thana, B.S.D.(Bandra) and Poona, and a uniform lower rate for the smaller towns of Ahmednagar, Kalyan and Rander. Though Belgaum is a borough town, it will have to be grouped with Bhiwandi, as no duty is levied, even at present, in both these towns on consumption of 12 units or less and it would be inadvisable to levy one now or later. The proposed reductions in the present rates involve, no change in the case of Ahmednagar, Belgaum, Rander and Bhiwandi (as the existing rates seem to be adequately lower), a reduction of quater-anna in the case of Ahmedabad, Surat, Thana, B.S.D. and Poona (only on the upper limits in the case of B.S.D. and Poona) and a reduction of half an anna in the case of Kalyan. On a very rough estimate, the loss in revenue from the reductions in rates proposed above, would be about Rs. 2 to Rs. 2½ lakhs.

9. It seems however inadvisable to reduce the rates before the Grid actually begins to operate

in these areas. If the rates are now reduced, any consequent increase in consumption would only increase the profits of the private Supply Companies. On the other hand when the Grid operates, the rates of supply are expected to be much cheaper and if the rates of duty are also reduced at that time, the consumers will get substantial relief and the use of electrical energy will be more popular. Further it will also mean a definite gesture from Govt. towards the encouragement of the Grid's activities. Financially also, this would be suitable as due to reduction both in supply rates and the Govt. duty, consumption of electrical energy for lights and fans will substantially increase and the loss sustained by Govt. in reducing the duty, will be made good by increased receipts. The Grid is expected to operate at first in the Ahmedabad and Surat areas and when it actually starts operating therein, the duties may be first lowered in these two areas. In the same manner, the reduction in duties at the other places may be effected simultaneously with the extension of the Grid's activities to those areas.

10. As regards the remaining areas, there seems no need for any change in the duty levied at present. These areas have remained unaffected by the increases in duty imposed by Govt. in 1938 and again 1939, and still continue to pay at the rate first levied in 1932. In their case no duty is levied for consumption not exceeding 12 units and a duty of only six pies per unit is levied for consumption exceeding 12 units. This rate compares

East Bombay

favourably with the rates levied by the Provinces of Madras and Sind which allow no exemption from duty, and is more or less the same as in the Province of Bengal. There seems no necessity therefore for any change therein. When the Grid develops and supplies electricity also to rural areas, these areas may be completely exempted from duty by amending the schedule of duty so as to substitute " in other urban areas" for the existing words "in other areas". This would give the required relief to the consumers in villages and backward areas.

11. In para. 5 above, a comparison has already been made between the total charges paid by the consumers in Provincial cities like Bombay, Madras, Calcutta and Karachi, where the supply rates are expected to be cheaper than in the other parts of the Provinces. It has been seen that next to Calcutta, the charges in Bombay are the lowest. The percentage increase in duty does not give a true idea of the burden on the consumer. Thus though as stated by A(R) the duty is 50 % of the supply rate in Bombay City and only 12½ % in the city of Madras, the consumer in Madras pays 50% more on his electric bill for lights than what a Bombay consumer pays. The tax in Bombay appears high only in relation to the supply rate and is not high when the total charge for electrical energy to the consumer is taken into account.

12. There would be no difficulty in accepting the suggestion made by A(R) that the duty should as hitherto, be levied only on lights and fans. The duty was never levied on electrical energy consumed for power purposes - whether industrial

xx

or agricultural. Section 5 of the Bom: Finance Act, 1932, states that "there shall be levied and paid to the Govt. of Bombay on the units of energy consumed for purposes of lights and fans ..... a duty at the rates specified in the first schedule". Further the tax is levied only on lights and fans in residential premises. Thus energy used for street-lighting and for lights and fans in work-shops, tramways, industrial premises, charitable hospitals and dispensaries, is exempt from duty - vide exemptions under First Schedule to Part II of the Bom: Fin. Act 1932. Acceptance of A(R)'s suggestion would these only mean the continuation of the present basis of electricity tax.

Id/-
22.2.45

Submitted w.o.t. para. 3 of A(R)'s note on pus

2. Mr. Wad Rahmi has in the above note with, examined the question exhaustively and I agree with him.

Id/-
23/2

A(R)

A(F)

The F.D. note does not touch the question of justification of the taxation presumably because A (F) has accepted the principle that it is bad peace-time taxation. Subject to my remarks below, I agree with a (F) that there are reasons not to take off the taxation during the war especially when there is a shortage of electricity which has become worse since he noted

2. Para 2 of the F.D. note. The result of persuading certain companies to reduce their rates, so that the tax would not affect consumers so much has produced the illogical result that the smaller towns Kalyan and Thana, which have few, if any, well-todo persons and where small companies operate at much higher rates, pay more for the first units than the richer localities in B.S.D. and Poona. This is of course also quite foreign to the idea of the Grid which will aim at reducing the cost in the smaller mofussil townships.

Para 5 of the F.D.note. This is surely a wholly illogical and untenable method of argument. We are considering taxation and not the total cost paid by the consumer. If accepted, it would mean that whenever a licensee was able to generate at a lesser rate, Government should increase the tax so that the consumers were no better off than before. In particular how can Madras City where, owing to its situation bulk electricity costs more to generate, b said to be better off than Bombay City which pays double the tax (a 50 per cent tax) for

the first 12 units and 2½ times (a 66 per~~mm~~t cent tax) forconsumption above 12 units! Madras in fact pays a 12½ per cent tax compared with 50 and 66 per cent in Bombay.

It is true that, as pointed out in the office note, the late Government when raising the tax, alleviated its effect on the consumer by compelling the licensees to reduce their rates and thus altered the original principle of electricity taxation. This, however, does not affect the argument whether the taxation in itself is to be considered high, if it is accepted that electricity is now an essential commodity for both rich and poor and when the Grid comes into force. For the same reason Mr. Perry's comparison with kerosene is no linger relevant. We wish electricity, as a more efficient and cleaner form of lighting, to be used by the poor as well and not kerosene.

I think the relevant figures would be the total receipts from the electricity tax in the 4 Provinces concerned. These are not give, and I believe they are incomparably higher in Bombay.

3. As to A of A (F)'s note of 3-1-45 on page 43, I think it would be wrong for the Grid itself to impose the taxation in the form of a surcharge. It would mean that the odium of imposing and defending the tax would be shifted to the Grid. I think this would be giving a very bad start to a project which stood for making electricity available in the largest quantity at the lowest possible rate.

4. The lines on which I would how proceed, prior to the eventual abolition of taxation,

taxation, are:-

(i) The tax should be in the larger and richer towns only

I accept to this extent the principle of the F.D. proposals in para 6 of its note, but I do not see why Ahmednagar should be taxed for the first 12 units and not Belgaum, because at present Belgaum somewhat anomalously gets off. Either both should be taxed or both excluded. It is of course equally anomalous that Sholapur and Hubli should get off altogether. I would also exclude Thana, Bhiwandi and Kalyan as poorer areas. There are many similar and richer towns e.g. Nadiad, Anand etc. which are not taxed at all. The list of towns in fact needs revision even if it leads to taxation where taxation does not exist at present. There should be a strict distinction between large rich towns and smaller ones.

(ii) I would take off taxation on the first 12 units everywhere. This would let off poorer consumers altogether and to some extent make for economy of consumption. If it was thought that economy would not in fact be so produced the tax could be be slightly higher than proposed in the F.D. note for units above 12.

5. Revision cannot take place before the next budget and in any case I agree that it may await the end of the war or the establishment of the Grid Board whichever is earlier. I do not know if it would be possible to issue a Press Note to the effect that the attention of Government has been drawn to

to criticisms in regard to taxation of electricity which is represented to be foreign to the aims of the Grid which are etc. Then some statement of justification on the lines of the F.D. note and of the necessity of maintaining it during war-time and when heavy expenditure is being incurred on the Grid project. Then something to the effect that without committing a future Government consideration will in due course be given to the question of revising the extent and incidence of the taxation. I am afraid, however, this would be impracticable both on financial canons and as indirect committing a future Government. Perhaps I could say something on these lines, if and when I give a talk to the Press on the Grid.

6. Special officer might see for any remarks he may wish to make before the papers go to A (F) and H.E.

Id/-
28-2-45

Special Officer. A reference is invited to my note of todays date attached.

Id/-B.B.A.
7-3-45

A (F)

H.E. (O.S.)

69 -of

I think we should take no action in this ~~why~~ way of change on the Electricity Duty at present - now indeed till the Grid is ready to start.

At present we have to discourage the use ~~and~~ of electricity.

2. A (R)'s 3. I don't see why Govt. should ~~how~~ hold the duty and not the Grid, if taxation is to be ~~continued~~,

Id/-
17-3-45

Para. one above having been accepted, no further action appears necessary on these pp. at present.

Id/-
22-3-45

The papers had better be filed in P.W.D. after s.o. has been.

Id/-

Send u.o. to s.o.

Id/-
24-3-45

U.O.R to the S.O. (El. Grid) dated 26-3-45.

As desired by the Jt Sec. F.D. over the phone these papers are passed on to him for perusal and thereafter being sent to Sec. to Govt. P.W.D.

Id/- B.B.A.
2-4-45.

Jt Sec. F.D. Id/-
3-4

Sec. P.W.D. (Irrigation)

u.o.r. No. Elg. 123/1270
dated 2nd April 1945.

P.W.R.B.

Submitted for information.

Record.

Thro' El.B.

Id/-.
14-4-45

71 67

Office of the Special Officer
(Electric Grid)

I note that the principle of a subsidy being made available to meet the deficit of the proposed Electricity Board has been accepted. The toral amount will be appreciable higher than originally anticipated. This is due to the fact that (1) it is considered desirable to develop Randha Falls along with Bhandardara and (2) energy should be made available in as many rural and urban areas as possible in the nine districts which have been taken as target for concentrated areas for developme for the first five years. This means that from the Grid lines where they are being put up in the first stage, far more rural areas than originally contempl ed must be covered and far more "nursery" sets than were originally contemplated must be set up elsewhere.

Arrangements are in hand for revising the original estimate of the subsidy and I shall submit my proposals to Government in this respect as soon as possible.

Id/9
7-3-45

Adviser(R. & P.W.D.),
Secretariat, Bombay.

Memo
U. O. N. No. Elg. 123/1015
7th March, 1945.

A (F)

H.E. (C.S.)